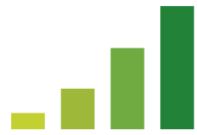


# European Public Finances and the Great Recession

- Comparison of the evolution of the public finances of six EU countries through the Great Recession
  - France, Germany, Ireland, Italy, Spain and the United Kingdom
- Each paper assesses
  - the evolution of GDP, employment and unemployment rates, and the public finances in the run-up to, and through, the financial crisis
  - the scale, timing and nature of the fiscal response
  - the impact of the reforms on the incomes of different households and on spending on different public services
- Published today in a special edition of the journal *Fiscal Studies*
- Introduction provides a brief comparison and discussion of some of the key stories and common themes



Institute for  
Fiscal Studies

## The Great Recession's impact on the economy, labour market and the underlying public finances

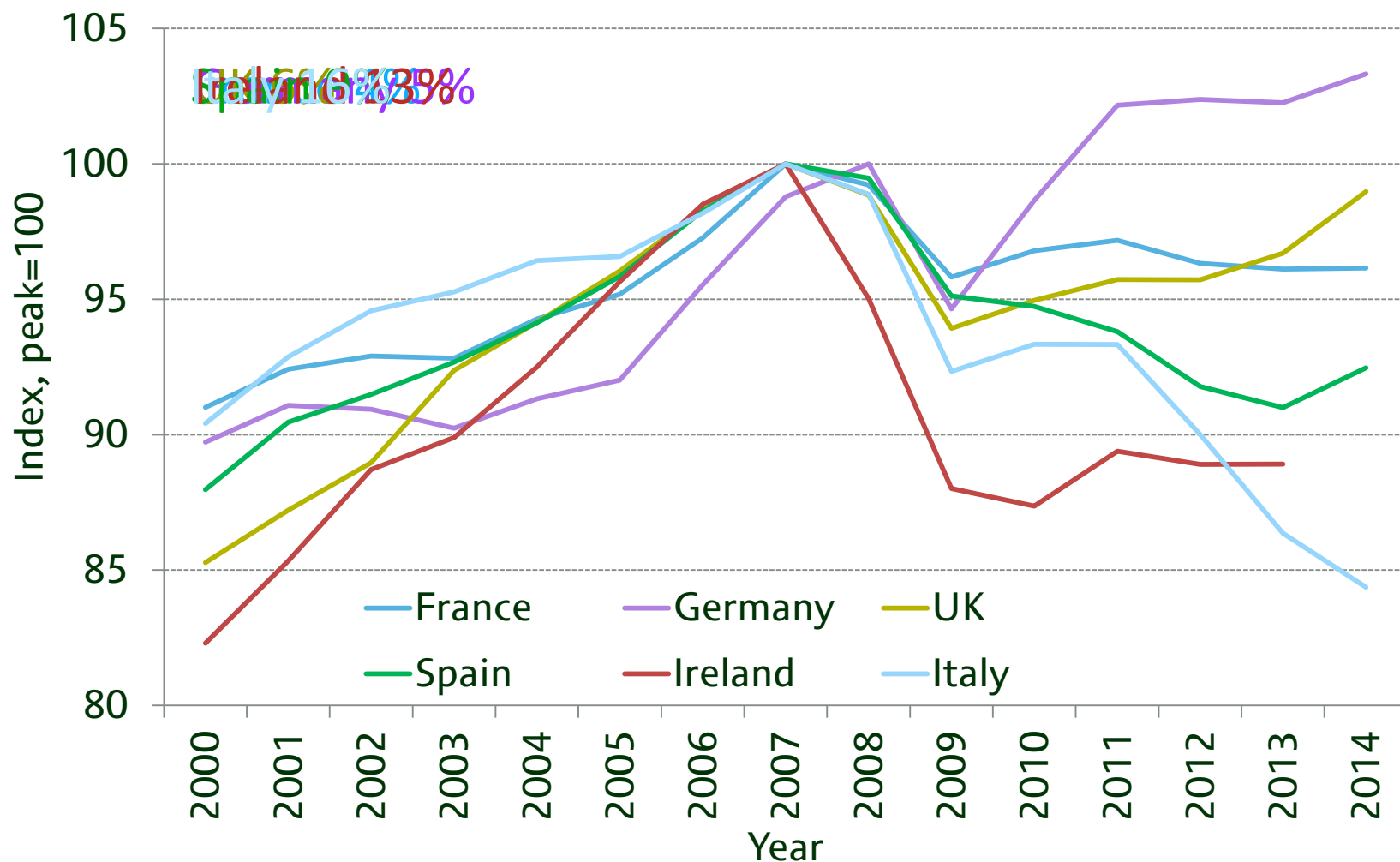
Antoine Bozio, Carl Emmerson, Andreas Peichl and Gemma Tetlow

Presentation at launch of “European Public Finances Through the Great Recession: France, Germany, Ireland, Italy, Spain and the United Kingdom Compared”, Brussels, 10 December 2015

# 1. GDP per capita through the Great Recession

- Initial hit to GDP per head varies across countries ...
- ... but differences in the subsequent recovery even more striking
- Large drops in GDP per head may understate shock in countries that were growing more strongly pre-crisis

# Evolution of real GDP per head

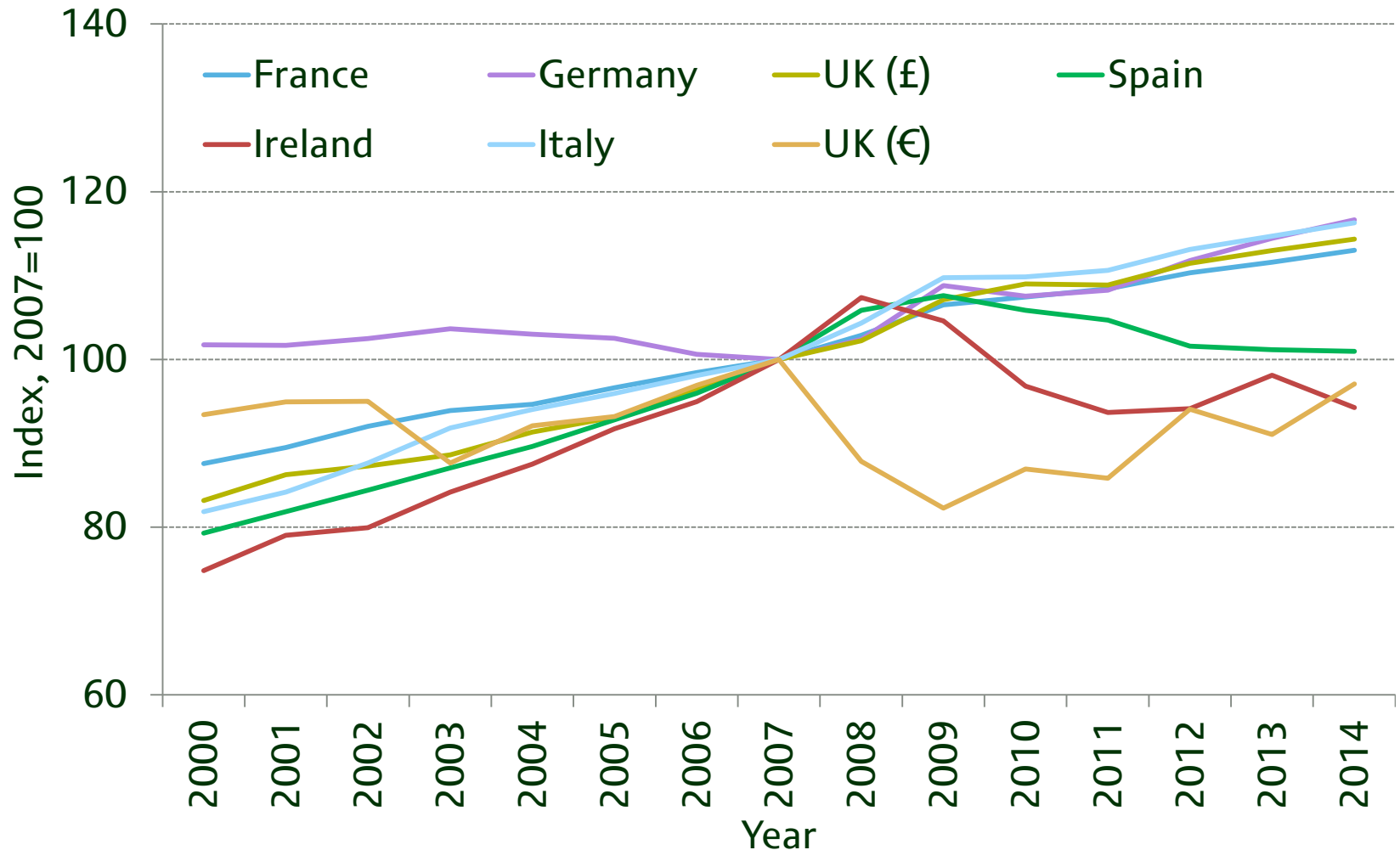


Notes & sources: Figure 1 of Bozio *et al.* (2015).

## 2. Labour markets through the Great Recession

- Path of labour costs varied across the countries pre-crisis and, especially, post-crisis
- Bigger hit to GDP associated with greater hit to wages, employment and unemployment
  - with a couple of notable exceptions
- Across countries with a hit to employment and unemployment some consistent patterns
  - larger changes among young – and much smaller changes among the old – than among the whole population

# Nominal unit labour costs



# Employment and unemployment

Peak-to-trough or trough-to-peak changes

	Real GDP per head (%)				
France	-4.2				
Germany	-5.4				
UK	-6.1				
Spain	-9.0				
Ireland	-12.6				
Italy	-15.6				

# Employment and unemployment

Peak-to-trough or trough-to-peak changes

	Real GDP per head (%)	Emp. 16–74 (ppt)	Unemp. 16–74 (ppt)		
France	–4.2	–1.2	+1.6		
Germany	–5.4	No fall	No rise		
UK	–6.1	–2.2	+1.9		
Spain	–9.0	–11.2	+13.7		
Ireland	–12.6	–9.1	+5.7		
Italy	–15.6	–2.7	+3.4		



# Employment and unemployment

Peak-to-trough or trough-to-peak changes

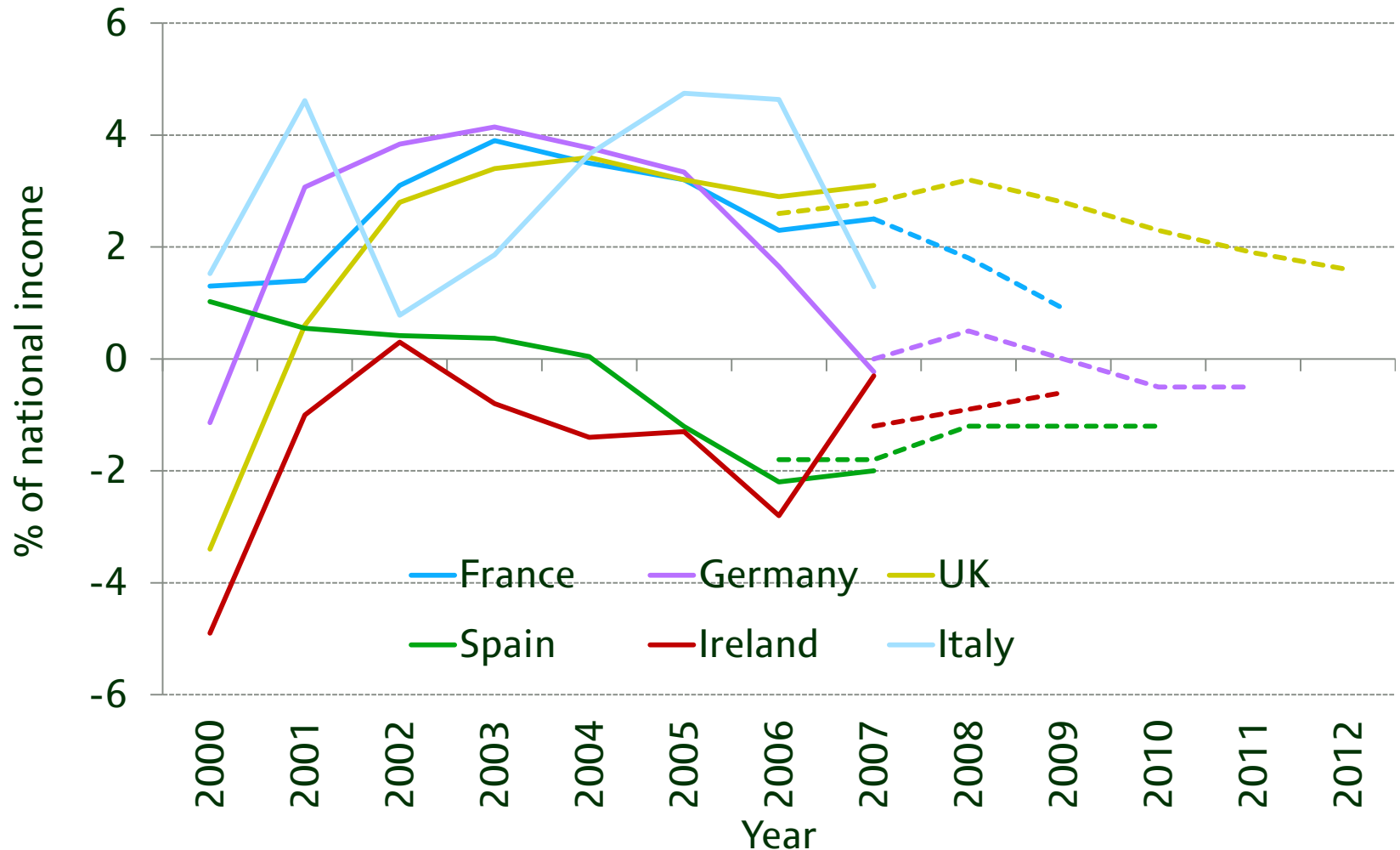
	Real GDP per head (%)	Emp. 16–74 (ppt)	Unemp. 16–74 (ppt)	Emp. 16–29 (ppt)	Unemp. 16–29 (ppt)
France	–4.2	–1.2	+1.6	–3.5	+2.2
Germany	–5.4	No fall	No rise	No fall	No rise
UK	–6.1	–2.2	+1.9	–6.2	+3.7
Spain	–9.0	–11.2	+13.7	–24.1	+16.8
Ireland	–12.6	–9.1	+5.7	–18.9	+7.5
Italy	–15.6	–2.7	+3.4	–10.3	+5.6

In France, Italy, Spain and the UK the employment rate among 55–74 year olds continued to grow throughout 2007 to 2014

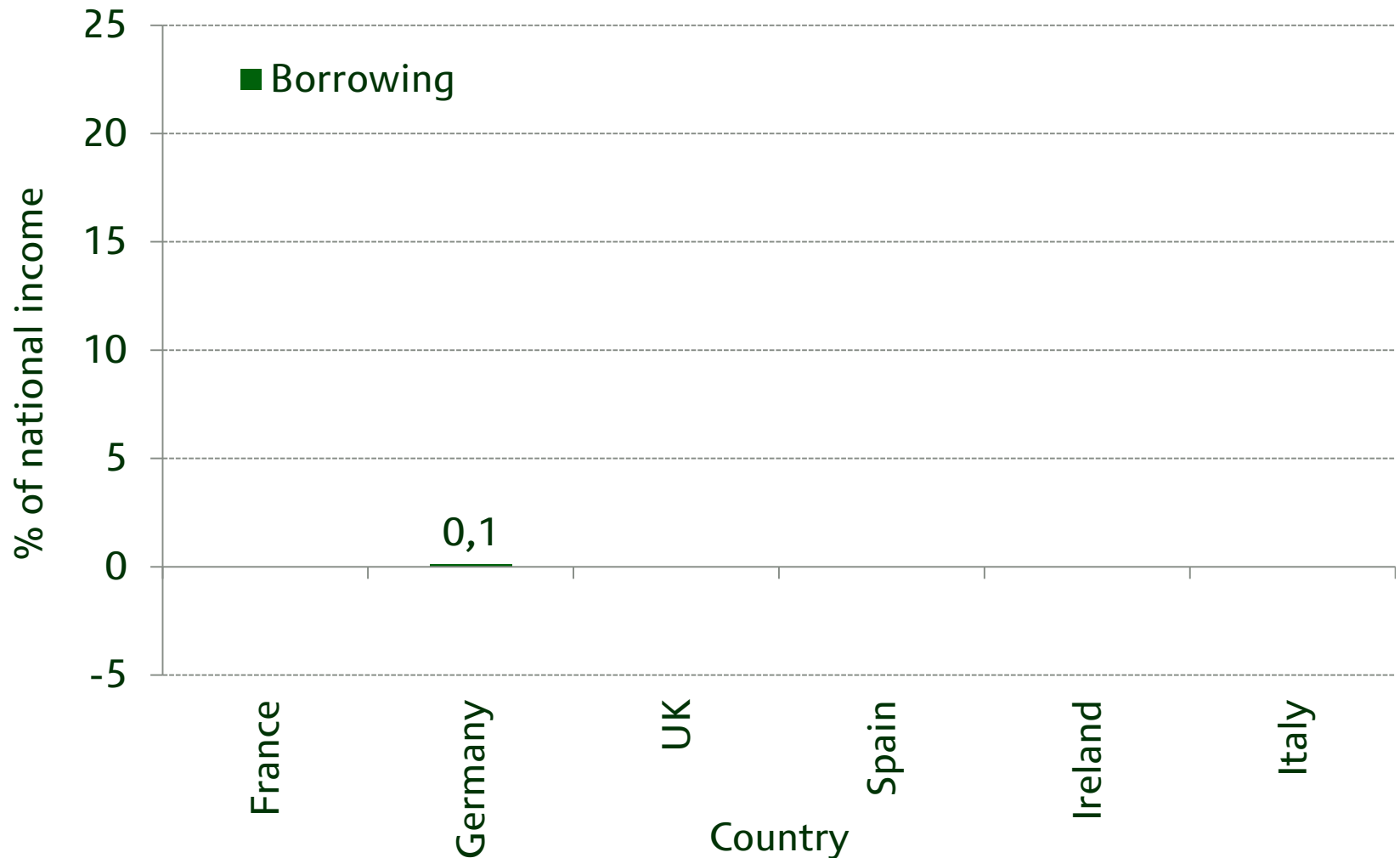
# 3. Government borrowing through the Great Recession

- Pre-crisis headline borrowing lowest in Ireland and Spain
- Larger deficits in France and the UK were not forecast to persist
- Substantial hit to borrowing in France, Italy and the UK
- Even larger hit in Ireland and Spain
- Increase in borrowing due to very different combinations of declining revenues and increasing public spending

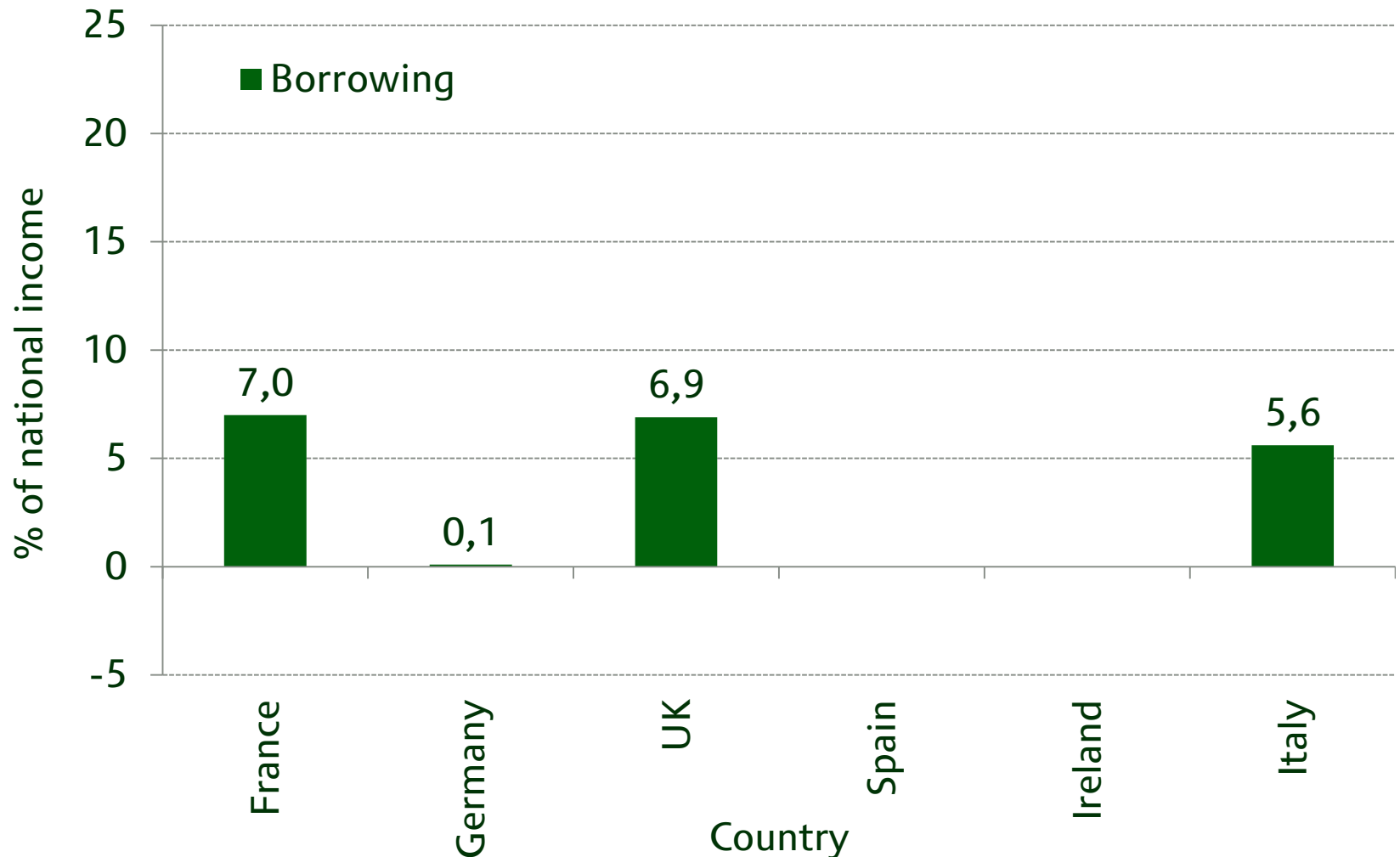
# Government borrowing before the Great Recession



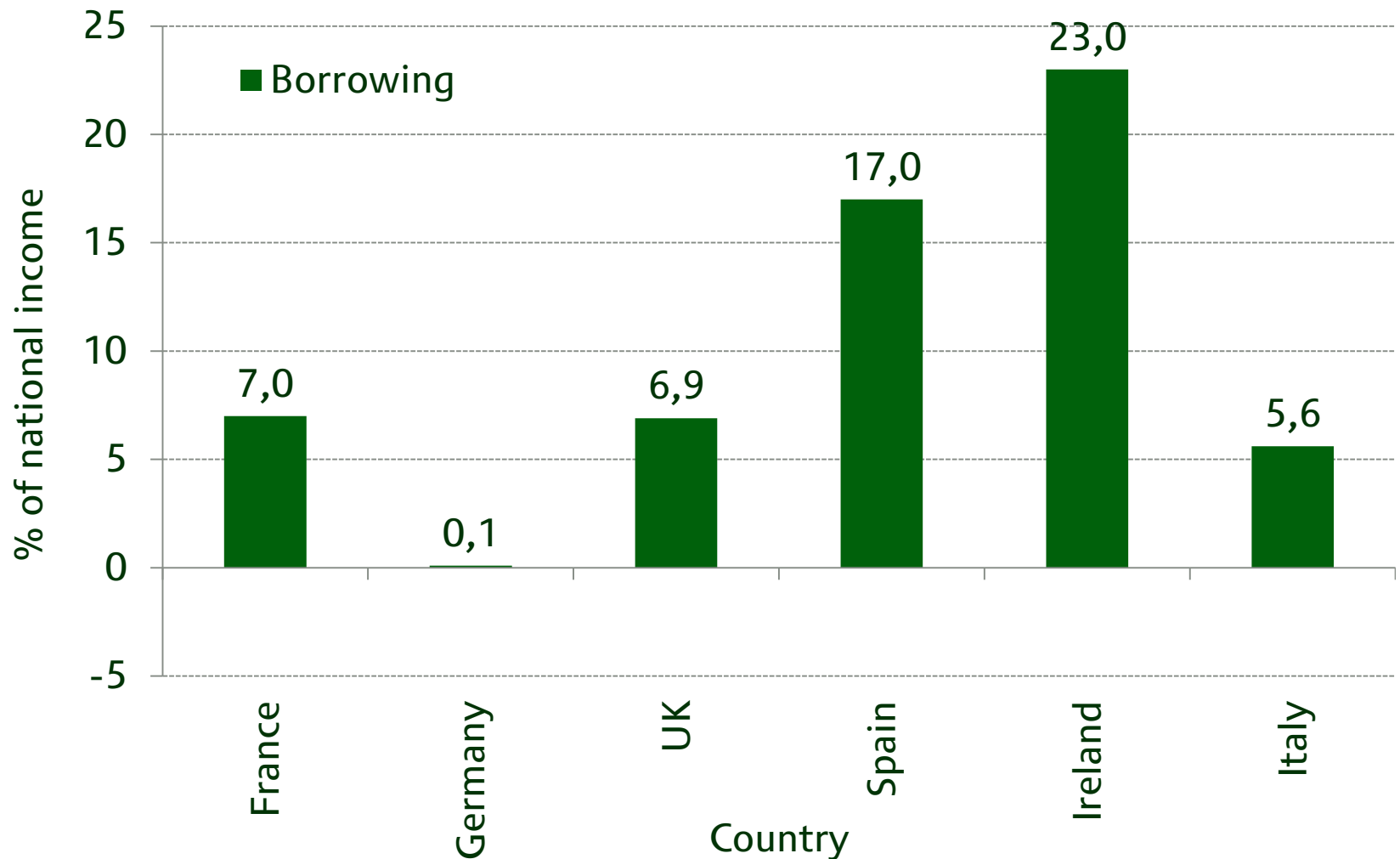
# Estimated change in underlying public finance aggregates since the crisis



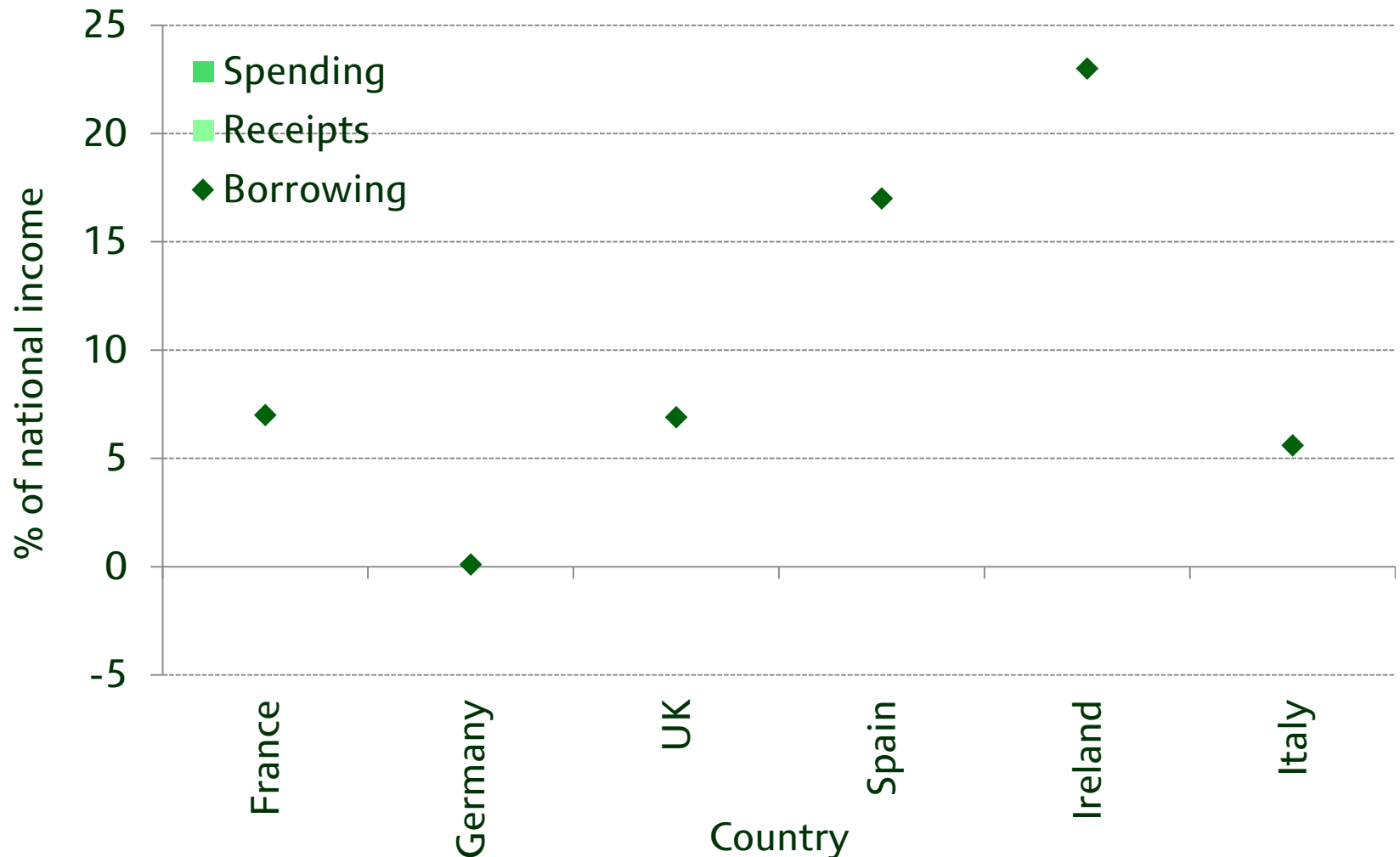
# Estimated change in underlying public finance aggregates since the crisis



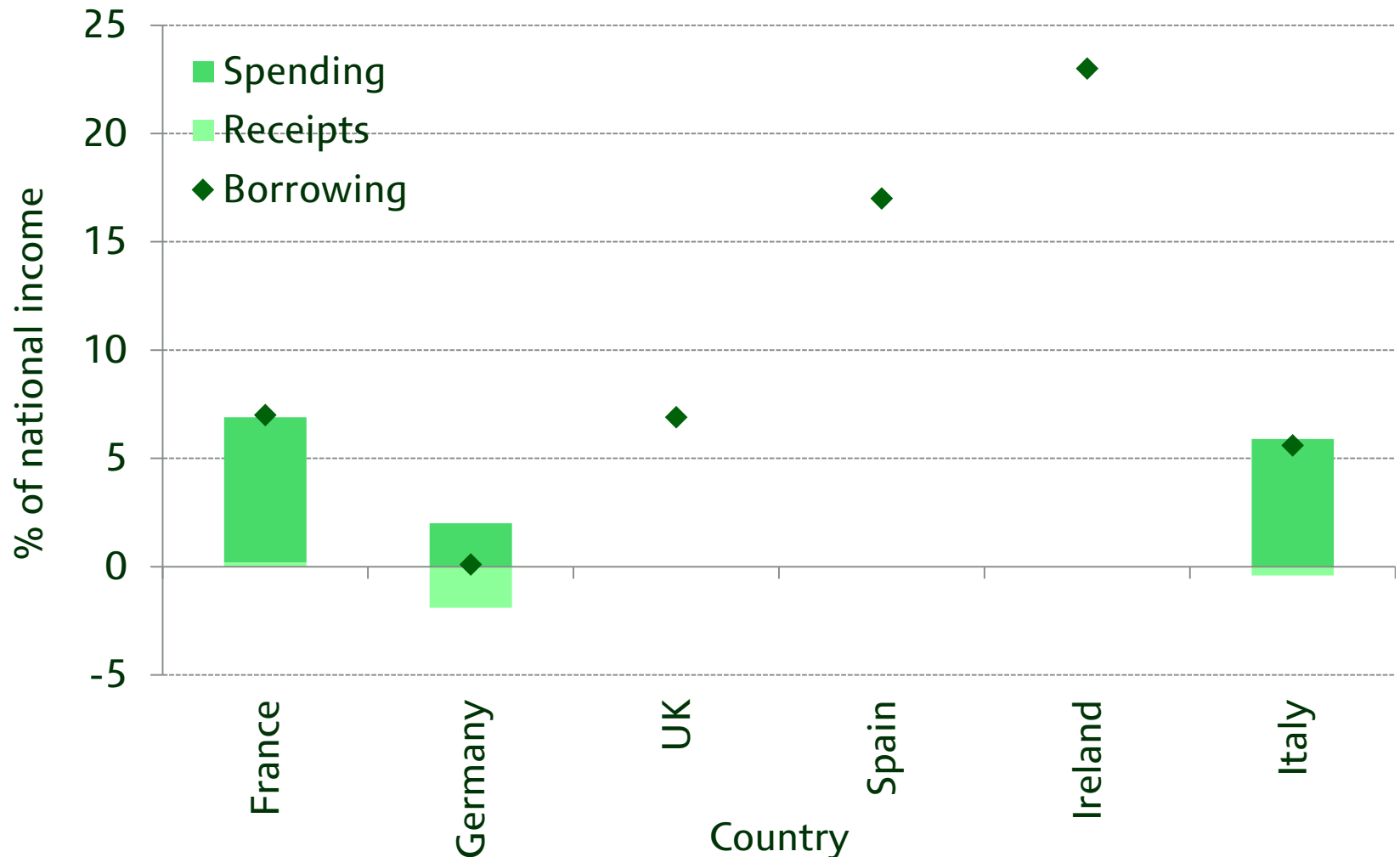
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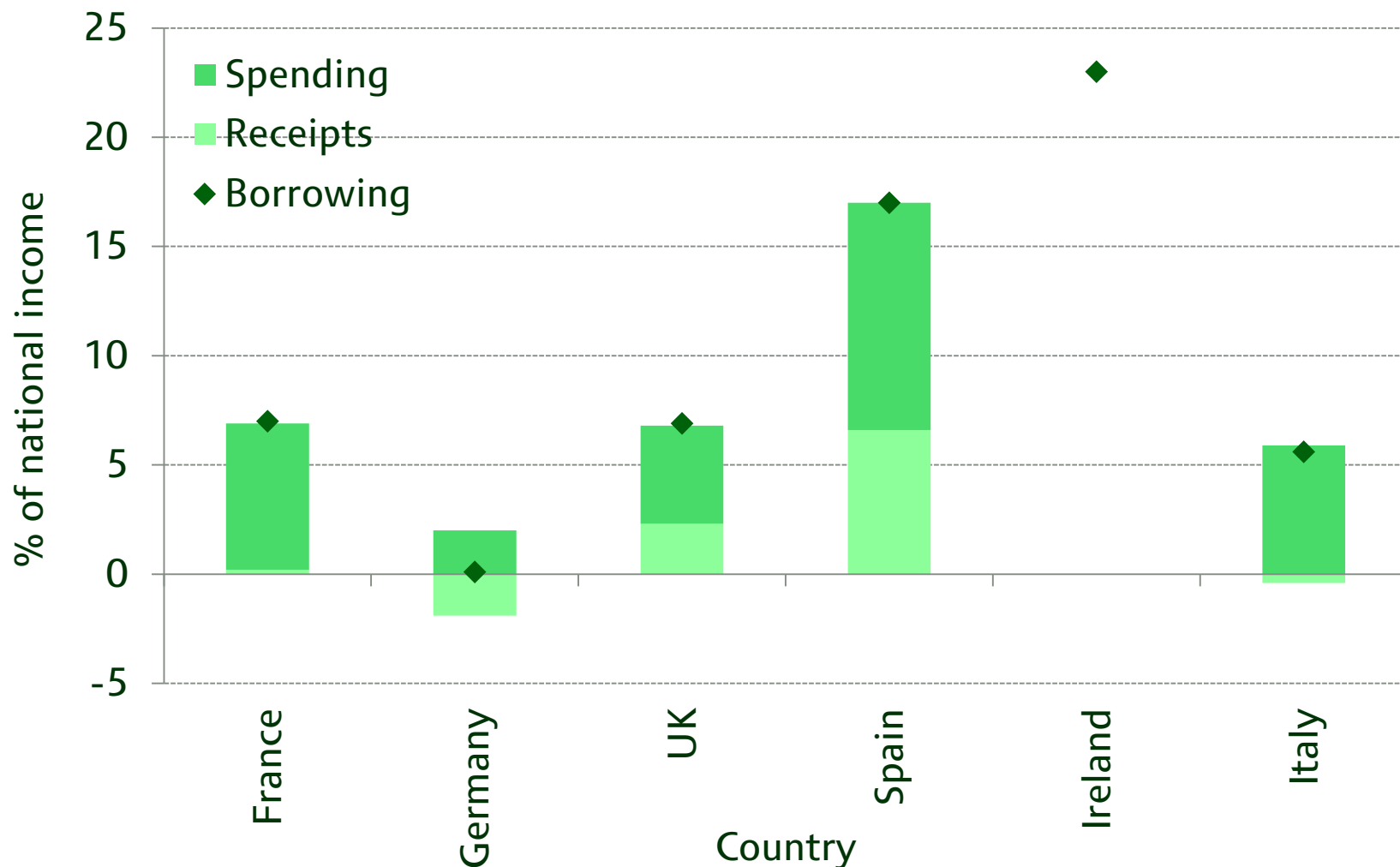


# Estimated change in underlying public finance aggregates since the crisis

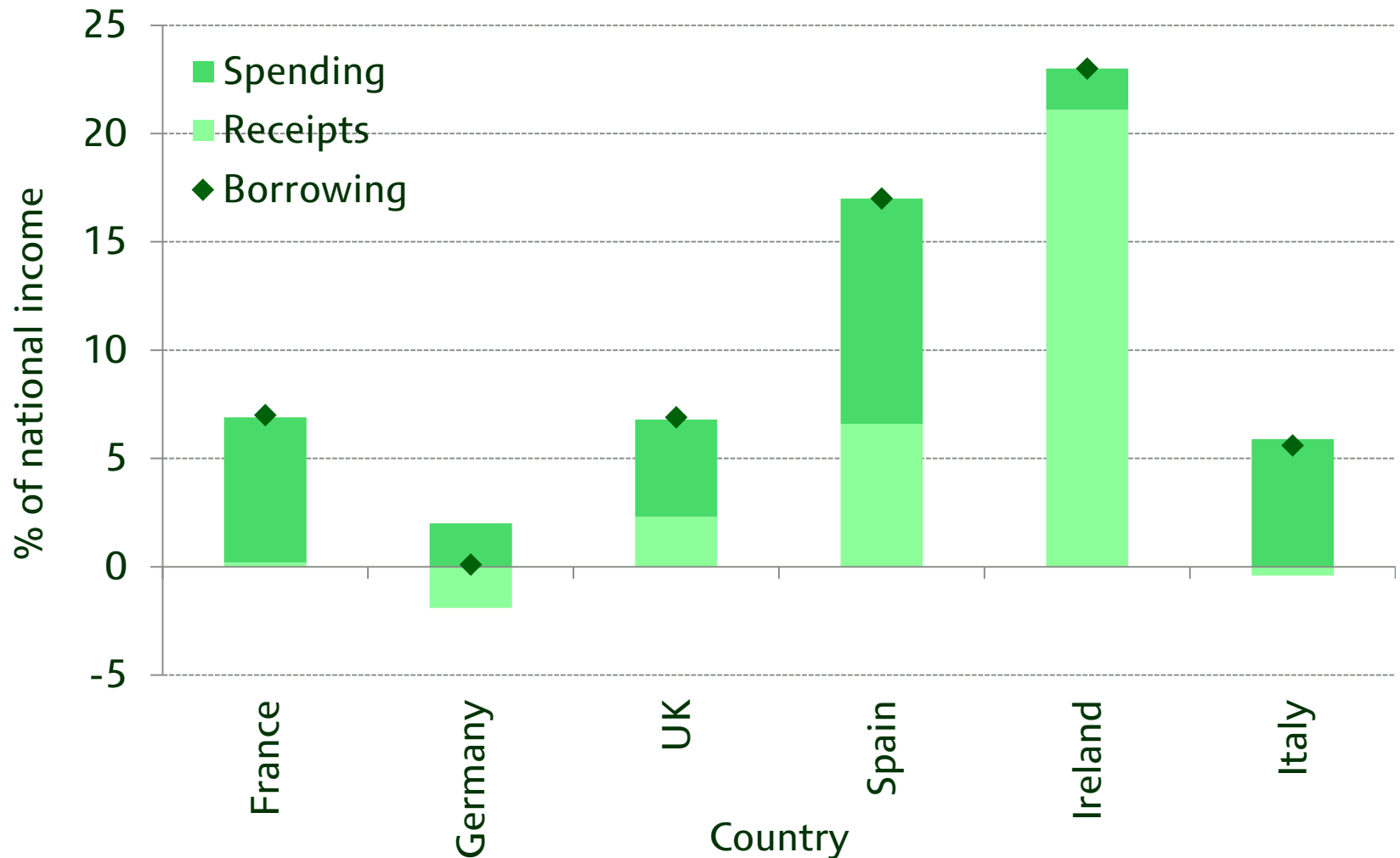




# Estimated change in underlying public finance aggregates since the crisis



# Estimated change in underlying public finance aggregates since the crisis



# Conclusions

- Initial hit to GDP per head varies across countries but differences in the subsequent recovery even more striking
- Declining labour market opportunities focussed on the young and away from, especially, the old
- Biggest hit to borrowing seen in those countries whose fiscal position may have appeared stronger pre-crisis
- Source of hit to borrowing – whether driven by a decline in revenues or an increase in spending – varies considerably